G-999/CI-91-188 ORDER SOLICITING COMMENTS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Darrel L. Peterson	Chair
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner
Patrice M. Vick	Commissioner

In the Matter of a Summary Investigation into Financial Incentives for Encouraging Demand-Side Resource Options for Minnesota Gas Utilities	ISSUE DATE: April 10, 1991 DOCKET NO. G-999/CI-91-188 ORDER SOLICITING COMMENTS

PROCEDURAL HISTORY

On May 23, 1989, the Commission issued its ORDER INITIATING PROCEEDING AND SOLICITING PROPOSALS AND COMMENTS, Docket No. E-999/CI-89-212. That Order solicited comments and proposals from electric utilities and other interested parties regarding financial incentives for encouraging demand-side resource options for Minnesota electric utilities and bidding systems. The Commission ordered all investor-owned electric utilities with more than 500 customers to address certain questions posed in the Order and to evaluate ways perceived barriers to energy efficiency could be overcome in the ratemaking process; other interested parties were invited to do the same.

The Commission received substantial comment from the utilities and a variety of other parties. The matter then came before the Commission on January 28, 1991.

FINDINGS AND CONCLUSIONS

I. NEED FOR INVESTIGATION

The Commission finds it necessary to initiate an investigation into the need for financial incentives to encourage investment by gas utilities in demand-side resource options. The Commission will therefore require that all gas utilities serving customers in Minnesota submit comments to the Commission identifying their current demand-side management activities, specifying current barriers to investment in demand-side resources, discussing the need for financial incentives to encourage demand-side management and indicating the types of financial incentives that would be most beneficial.

Demand-side management refers to the coordinated efforts of a utility to affect the level and time pattern of energy use by its customers. It involves investment in conservation programs or in programs that reallocate demand from periods when demand is highest to times when it is typically lower. This contrasts with supply-side management, which focuses on a utility's efforts to affect the supply of energy available to its customers. Financial incentives are essentially additional considerations in ratemaking that allow utilities to profit financially from investments in measures that reduce or reallocate the demand for energy.

Need to Encourage Demand-side Management

The Commission is required by statute to emphasize and promote demand-side management. Minn. Stat. § 216B.03 (1990) directs the Commission to set rates to encourage energy conservation and renewable energy use and to further the goals of sections 216B.164, 216B.241 and 216C.05 to the maximum reasonable extent. All of these sections express the legislature's policy promoting demand-side management, particularly conservation.

The energy crises of the 1970's first focused public attention on the finite nature of fossil fuels and the need to control the demand for these resources. The recent war in the Middle East has refocused attention on this issue and underscored the need to limit fossil fuel consumption through demand-side management. Although Minnesota is not currently experiencing a shortage of natural gas, the supply of this resource is nevertheless limited and diminishing. The volatility of the natural gas market makes it particularly susceptible to periodic shortages[1] which can seriously disrupt the economy. Demand-side management is therefore both necessary and desirable.

Need for Financial Incentives to Encourage Demand-side Management

Notwithstanding the need for and desirability of demand-side management, the current ratemaking process tends to discourage utilities from making optimum use of demand-side resources, especially energy conservation, in their planning and investment decisions. Under the current system, a utility has a financial incentive to meet and exceed the sales levels set in its most recent rate case, but little financial incentive to pursue projects which result in reduced energy sales. The key, therefore, to encouraging effective demand-side management

[1] The business of reducing to possession and providing an adequate supply of natural gas is "more erratic and irregular in relation to investment than any phase of any other utility business." Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591, 647 (1943) (separate opinion).

appears to be financial incentives, which counter the effects of the disincentives inherent in the current ratemaking process.

Investigative Authority

The Commission has broad authority to inquire into the practices and concerns of utilities. Under Minn. Stat. § 216B.14 the Commission may "upon its own initiative and whenever it may deem necessary . . . investigate and examine the condition and operation of any public utility or any part thereof." Similarly, the Commission may initiate summary investigations under Minn. Stat. § 216B.21 on "any matter relating to any public utility." The Commission is determined to fulfill its legislative mandates to encourage and promote conservation and investment in demand-side resources. The Commission has already issued an order requiring electric utilities to submit financial incentive plans. In the Matter of a Summary Investigation into Financial Incentives for Encouraging Demand-Side Resource Options for Minnesota Electric Utilities and Bidding Systems, Docket No. E-999/CI-89-212, ORDER REQUIRING ELECTRIC UTILITIES TO FILE FINANCIAL INCENTIVE PROPOSALS IN 1991 (February 28, 1991). The Commission is interested in determining whether it is necessary to require the same of Minnesota's gas utilities.

II. PURPOSE AND GENERAL SCOPE OF PROCEEDING

The purpose of this proceeding is to gather information from gas utilities and other interested persons on the need for financial incentives to encourage the optimum use of demand-side resources by Minnesota's gas utilities. The Commission recognizes that the potential financial consequences of decreased energy sales on company profits may not be the only barrier to increased use of demand-side resources; it does, however, appear to be a major concern that must be addressed.

From this proceeding the Commission expects to ascertain whether and how the current ratemaking system in Minnesota tends to discourage gas utilities from investing in demand-side resource options. With this information the Commission will be in a better position to determine what additional steps must be taken to ensure that demand-side resource options are treated fairly in the ratemaking process and given appropriate emphasis by Minnesota's gas utilities.

III. PROCEDURES

Utilities and interested persons have until May 20, 1991, to file their comments in response to this Order. Fifteen copies of all comments must be filed with the Commission and one copy must be served on each gas utility serving customers in Minnesota. The Commission will compile a service list of those who comment and any others the Commission deems appropriate. The service list will be distributed to the parties. Parties will have seven days after receiving the service list to serve copies of their initial comments on parties who have not already been served. Parties will have 20 days after receipt of the service list to file and serve reply comments.

ORDER

1. The Commission hereby initiates a summary investigation into the need for financial incentives to encourage Minnesota gas utilities to invest in demand-side resource options.

2. All gas utilities serving customers in Minnesota shall submit comments to the Commission identifying their current demand-side management activities, specifying current barriers to investment in demand-side resources, discussing the need for financial incentives to encourage more demand-side investment and indicating the types of financial incentives that would be most beneficial. Other interested persons are encouraged to do the same.

3. Utilities and other interested persons must file 15 copies of their comments with the Commission by May 20, 1991. One copy of each filing must be served on all gas utilities serving customers in Minnesota and all other persons on the service list for this proceeding. Parties who are not served on the date of the initial filing must be served within seven days after receiving the service list from the Commission.

4. Parties may file reply comments. Reply comments must be filed with the Commission and served on all parties within 20 days of receipt of the service list for this proceeding.

5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

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